



Economic and Revenue Update

A Briefing for the House Appropriations Committee

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Topics for Discussion

- National and State Economic Indicators
- First Quarter Revenue Collections, Fiscal Year 2013
- Next Steps

National and State Economic Indicators

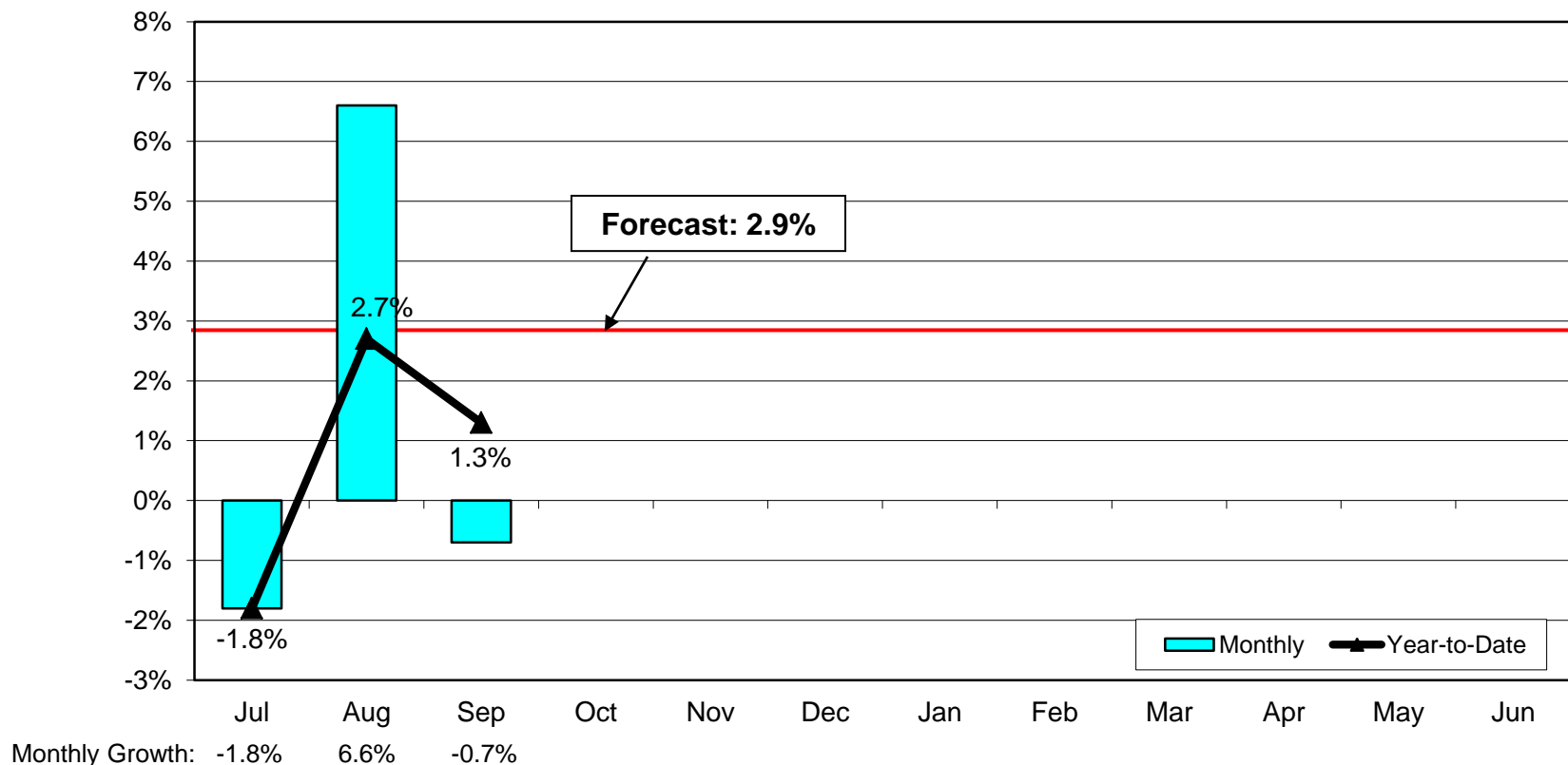
- National indicators show continued slow economic growth.
- According to the final estimate, real GDP grew at an annualized rate of 1.3 percent in the second quarter of 2012, down from 2.0 percent in the first quarter.
- Payroll employment rose by 114,000 in September, while employment in the last two months was revised upwards by 86,000.
- The national unemployment rate fell from 8.1 percent to 7.8 percent in September, its lowest level since January 2009, due to an increase in household employment.
- Initial claims for unemployment increased by 4,000 to 367,000 during the week ending September 29.
 - The four-week moving average was unchanged at 375,000.
- In August, payroll employment in Virginia grew by 1.3 percent from August of last year. (However, this growth is overstated due to a BLS procedural change regarding private education.)
 - Compared to last year, employment increased 2.5 percent in Northern Virginia, 1.5 percent in Richmond-Petersburg and 0.3 percent in Hampton Roads.
- The unemployment rate in Virginia fell 0.3 percentage point to 5.8 percent.

National and State Economic Indicators

- The manufacturing sector, while still weak, showed signs of improvement in September, as the Institute of Supply Management index increased from 49.6 to 51.5.
 - This marks 1st time since May that the index has been above the expansionary threshold of 50.0.
- The Conference Board's index of leading indicators fell 0.1 percent in August after rising 0.5 percent in July and falling 0.5 percent in June. Since March the index has risen one month and then fallen the next.
- The Conference Board's index of consumer confidence soared in September, increasing from 61.3 to 70.3. It is now at its highest level since February, when it reached 71.6.
- The CPI rose 0.6 percent in August, the first positive reading since March thanks in large part to higher gas prices. The CPI now stands 1.7 percent above August 2011.
 - Core inflation (excluding food and energy prices) rose 0.1 percent in August, and has increased 1.9 percent from August 2011.
- According to RealtyTrac, U.S. foreclosure activity for August declined 15.2 percent from August 2011.
 - One in every 681 U.S. housing units received a foreclosure notice in July.
 - In Virginia, one in every 1,189 households received a foreclosure notice.
- The saving rate decreased from 4.1 percent in July to 3.7 percent in August.
- At its September meeting, the Federal Reserve decided to launch a third round of quantitative easing, which this time will be open-ended. The Federal Reserve kept the target range for the federal funds at 0.0 to 0.25 percent.

Growth in Total General Fund Revenue Collections

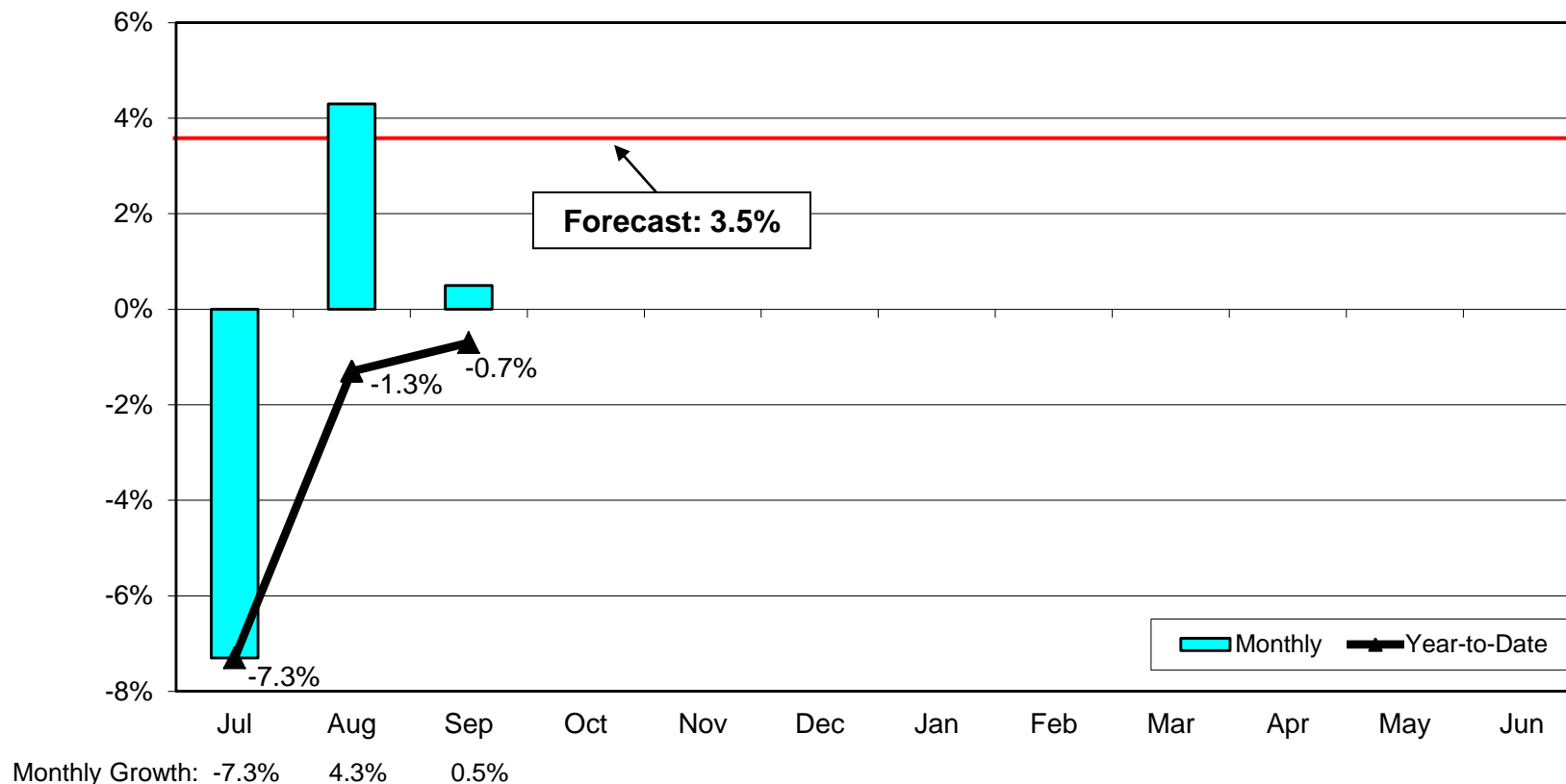
FY13 Monthly and Year-to-Date



- On a year-to-date basis, total revenues increased 1.3 percent through the first quarter of fiscal year 2013, slightly behind the annual forecast of 2.9 percent growth.
 - Adjusting for the accelerated sales tax (AST) program, total revenues grew 0.4 percent through the first quarter, behind the economic-base forecast of 2.7 percent growth.

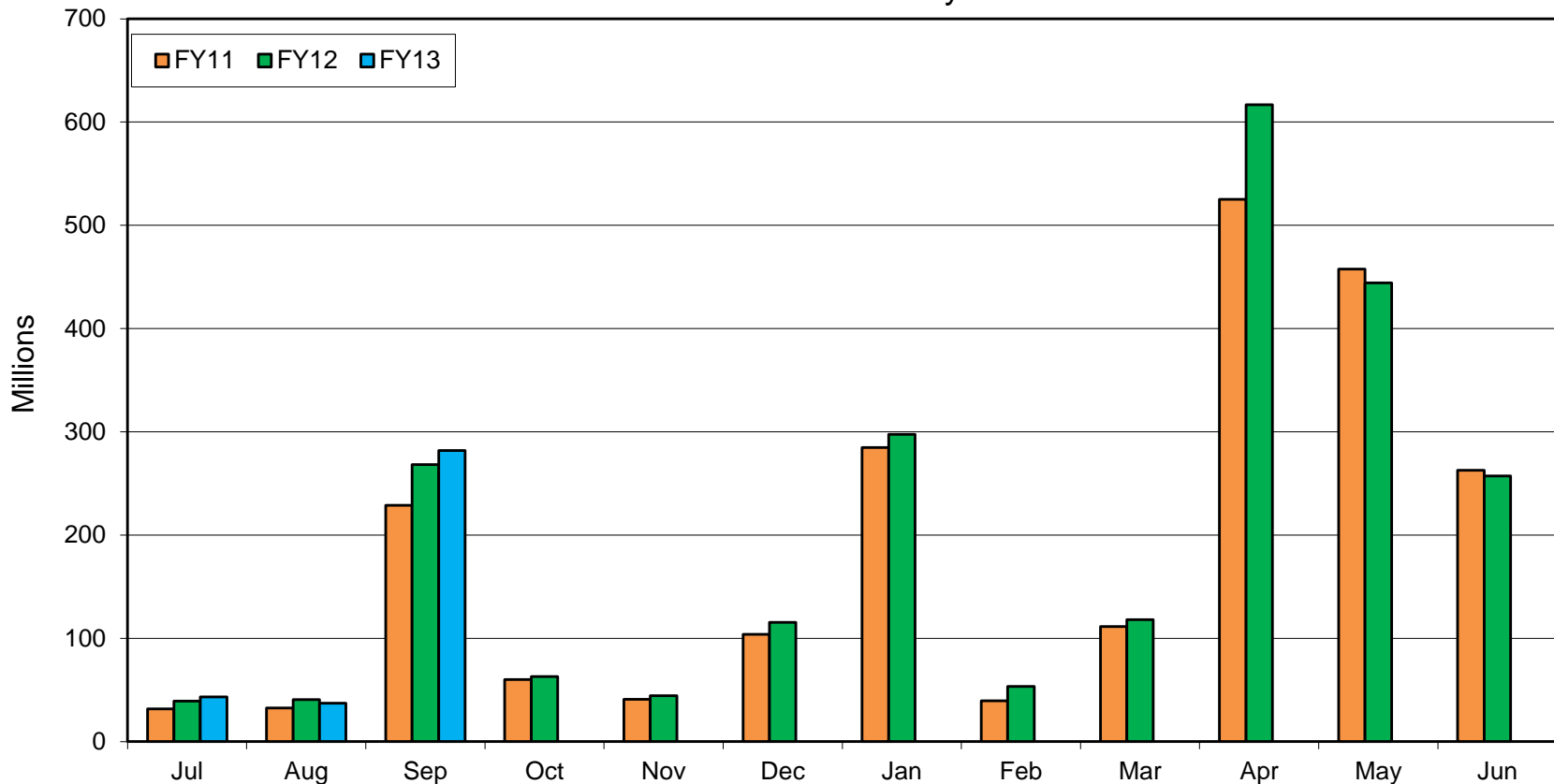
Growth in Withholding Tax Collections

FY13 Monthly and Year-to-Date



- Collections of payroll withholding taxes grew 0.5 percent in September, however, there were two fewer deposit days as compared to last September.
- Year to date, withholding collections through the first quarter of fiscal year 2013 fell 0.7 percent compared with the same period last year, trailing the projected annual growth rate of 3.5 percent.

Nonwithholding Tax Collections FY11-FY13 Monthly



- The first individual estimated payment in fiscal year 2013 was due in September. Total monthly nonwithholding collections increased 5.1 percent.
- Year-to-date, collections through the first quarter of fiscal year 2013 were \$362.4 million compared with \$348.0 million in the same period last year, an increase of 4.1 percent and ahead of the annual estimate of 3.6 percent growth.

Individual Income Tax Refunds

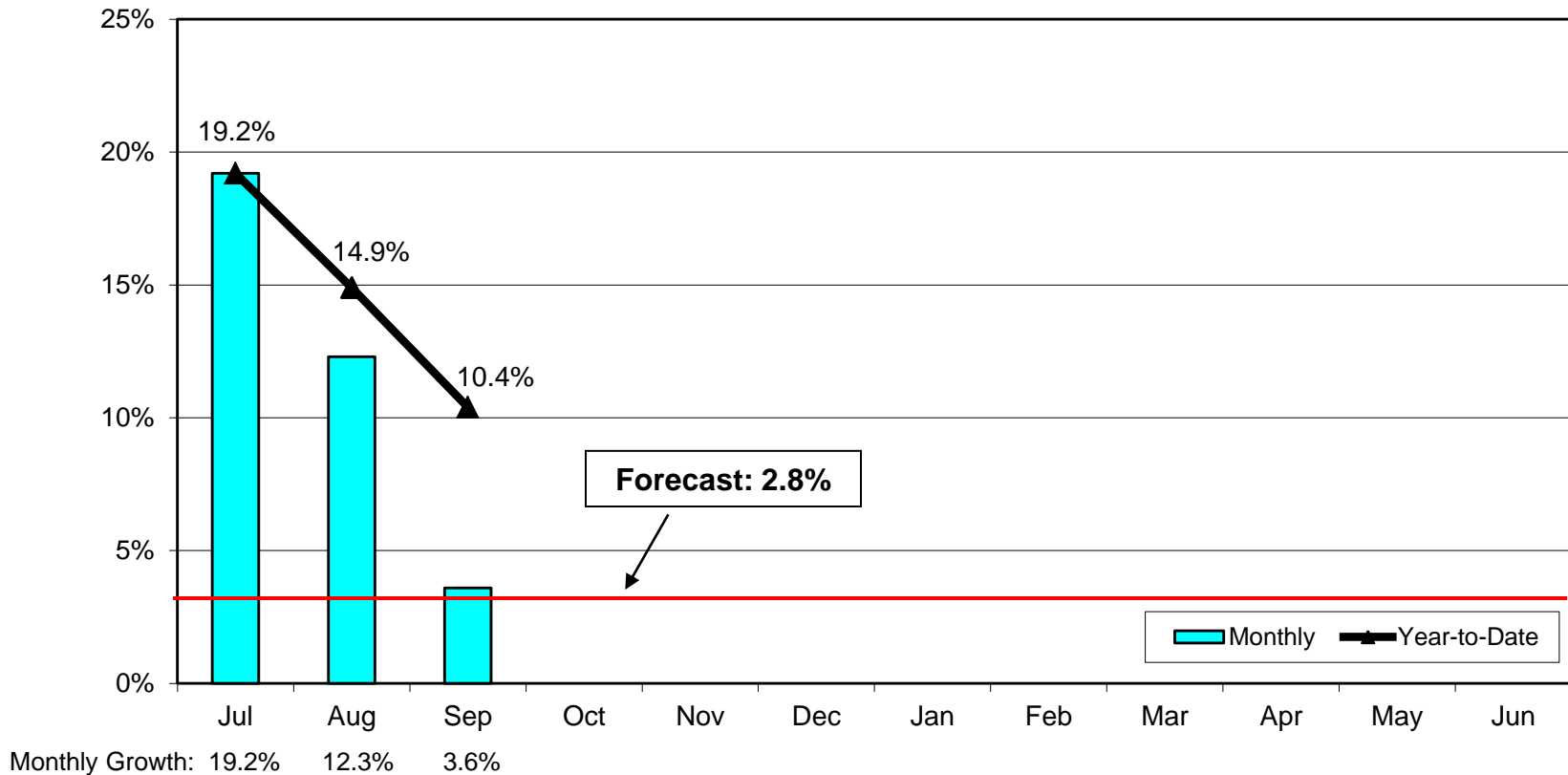
- Not a significant month.
- Through September, TAX has issued \$98.2 million in individual income tax refunds compared with \$105.7 million in the same period last year, a 7.1 percent decline and behind the annual estimate of a 7.8 percent increase.

Net Individual Income Tax

- Through the first quarter of fiscal year 2013, collections of net individual income tax rose 0.2 percent from the same period last year, trailing the annual estimate of 2.8 percent growth.

Growth in Sales Tax Collections

FY13 Monthly and Year-to-Date



- Collections of sales and use taxes, reflecting August sales, increased 3.6 percent in September.
- Through the first quarter of fiscal year 2013, collections increased 10.4 percent, ahead of the annual estimate of a 2.8 percent increase.
 - Adjusting for AST, sales tax collections grew 4.2 percent through the first quarter, ahead of the economic-base forecast of a 1.7 percent increase.

Net Corporate Income Tax Collections

- Like nonwithholding, September is a significant month in corporate income tax collections since the first estimated payment for the fiscal year is due.
 - Collections in corporate income tax fell 17.7 percent in September.
 - This drop is due to widespread weakness in payments from many large corporations.
- Through the first quarter of fiscal year 2013, collections in this source have fallen 11.8 percent, behind the annual estimate of 3.0 percent growth.
- Through the first quarter, 20.5 percent of the projected fiscal year's gross corporate payments have been received.
 - This is slightly below the historical average of 22.5 percent.

Through the First Quarter of FY13, Corporate Tax Collections Were Down for Many Major Industry Sectors.....

Corporate Tax Collections (Through the First Quarter)

Industry (% of Total Amount*)	# of firms in FY13	Millions of Dollars			Percent Change	
		FY11	FY12	FY13	12 over 11	13 over 12
Federal Contractors (14%)	147	\$25.8	\$30.9	\$32.3	19.9%	4.6%
Energy (8%)	11	\$21.9	\$20.1	\$17.8	-8.1%	-11.5%
Housing (8%)	97	\$16.3	\$9.0	\$17.4	-44.4%	92.0%
Professional and Business (7%)	82	\$13.0	\$10.3	\$15.5	-20.9%	50.8%
Manufacturing (6%)	199	\$12.2	\$13.9	\$14.5	13.6%	4.2%
Wholesale Trade (6%)	302	\$12.3	\$12.4	\$12.7	0.8%	2.4%
Transportation (4%)	176	\$7.0	\$7.5	\$8.2	6.2%	9.5%
Information (4%)	302	\$4.9	\$9.2	\$8.0	88.0%	-13.1%
Retail Trade (3%)	56	\$8.1	\$10.4	\$7.5	29.2%	-27.9%
Other (18%)	625	\$60.2	\$69.9	\$41.2	16.2%	-41.1%
Total Large Payers (78%)	1,997	\$181.6	\$193.7	\$175.0	6.6%	-9.6%
Total DOA Collections	268,429	\$227.0	\$241.8	\$224.8	6.5%	-7.0%
Total Small Payers (22%)	266,432	\$45.3	\$48.1	\$49.8	6.1%	3.5%

* Number in parentheses represents percent of total DOA corporate tax collections for the first quarter of FY13.

- Almost 50 percent of the Other category is composed of Tobacco, Financial Activities and Telecommunications. All three of these sectors saw decreases in the first quarter.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – increased just 0.9 percent in September, but are up 14.9 percent on a year-to-date basis, far ahead of the forecast of 0.3 percent growth.
 - There has been double-digit growth for the prior seven months.

Insurance Premiums Tax

- Monthly collections of insurance premiums are being transferred to the Transportation Trust Fund per Chapter 896, 2007 Acts of the Assembly, until the required amount of \$130.1 million has been booked.
 - Adjusted for this transfer, collections have declined 2.8 percent through the first quarter of fiscal year 2013 from the same period last year, below expectations of 16.1 percent growth.

Summary of Fiscal Year 2013 Revenue Collections

July through September

<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	<u>Annual Estimate</u>	<u>Variance</u>
Withholding	63.7 %	(0.7) %	3.5 %	(4.2) %
Nonwithholding	15.0	4.1	3.6	0.5
Refunds	(11.8)	(7.1)	7.8	(14.9)
Net Individual	66.9	0.2	2.8	(2.6)
Sales	19.7	10.4	2.8	7.6
Corporate	5.4	(11.8)	3.0	(14.8)
Wills (Recordation)	2.0	14.9	0.3	14.6
Insurance	1.8	0.0	16.1	(16.1)
All Other Revenue	4.2	(10.0)	2.1	(12.1)
Total	100.0 %	1.3 %	2.9 %	(1.6) %

Sales (x AST)	4.2 %	1.7 %	2.5 %
Total (x AST)	0.4 %	2.7 %	(2.3) %

Fall 2012 Forecasting Process

- The Joint Advisory Board of Economists (JABE) met on October 10th.
 - Members assessed recent economic developments and evaluated the revised economic outlook for the current and the next biennium.
- A meeting of the Governor's Advisory Council on Revenue Estimates (GACRE) will be held on November 19, 2012.
 - Members will evaluate JABE recommendations, revenue collections through October, and the associated revenue forecast.
- The subsequent economic and revenue outlook will serve as the basis for the Governor's amendments to the 2010-2012 biennial budget.